

Management News

BUSINESS CONDITIONS & FORECASTS

American Management Association 330 West 42nd Street, New York 18, N. Y.

VOL. 18, NO. 11

NOVEMBER 30, 1945

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American Management Association



The
President's
Scratch-Pad



Isolationism in Management

At the AMA Production Conference, executives, representing all kinds of manufacturing organizations, discussed mutually enlightening experiences concerning present-day factory operations—particularly those having to do with cost reduction methods. For alert ears, there were many ideas to be obtained and taken home for application.

People later wrote to the AMA thanking the Association for making it possible to hear about such ideas. But one executive who attended the sessions wrote in a different vein. He did not like the attitude of the production men who attended the conference, or at least their attitude toward accounting departments. To him the conference seemed to make it pretty clear that production executives regarded the auditing and cost departments as a necessary evil—a hindrance rather than a help in reaching the general objective of manufacturing at low unit costs.

"Whenever the accounting department was mentioned," the letter said, "the attitude of the speaker seemed to be that the department was operating for its own end. This attitude reveals one of two things—either the organization of the speaker's company is not properly geared to secure cooperation between departments, or the speaker does not understand the part that an accounting department should play in a business organization."

Clearly, these remarks bear heeding, and the letter bears quotation in full, because the situation is analogous to relationships a good deal beyond those be-

tween the operating department and the accounting department.

The writer goes on to say: "The accounting department in any organization is not a thing apart, but a child of management. The extent of the classification of accounts depends largely on what management wants the accounts to reveal in the way of details of expenses, revenues, etc. There are really only two basic principles to which the accountant must adhere without deviation, if he is to be true to his responsibility—the first being the proper division of expense between investment charge and the cost of doing business, and the second being the allocation of the expense item to the appropriate reporting period.

"The production man apparently needs to become better acquainted with the purpose of accounting, which is to aid management, and if, after having gathered all the facts, he still finds that the accounting department of his company functions as a separate business rather than as part of the whole business, he needs a new accountant.

"Reference was made to the fact that accounting is an exact science. Nothing could be further from the fact. An examination of a number of balance sheets, profit and loss statements and account classifications, will reveal that certain conventions are observed and certain basic principles are adhered to, but beyond that the accountant may, and should, do anything that will further the interest of his company and its managers."

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TRENDS IN BUSINESS

GENERAL OUTLOOK

The lowering pall of labor difficulties that has hung over the economic horizon in recent months has come to a stormy climax with the calling of strikes at the far-flung plants of General Motors. Labor and management throughout the nation will watch the outcome of this struggle with the most intense interest because it is likely to provide the formula for settling many other disputes. An early settlement could have tonic effect upon the rest of the economy now suffering so seriously for want of more goods and services.

The nation also looks hopefully toward Washington, where representatives of labor and management are seeking to find ways and means of insuring industrial peace of the future. If the conference is successful, if it produces definite measures for preventing and quickly settling labor disputes, it will provide an enormous boon to a nation engaged in the ponderous business of turning an economy around.

Industrial output in October declined less sharply than in the previous month. Employment rose while unemployment fell. Although incomes decreased, consumer spending was higher than a month earlier and a year ago. Wholesale prices increased slightly. Stock prices reached an eight-year high. Failures declined slightly; liabilities increased considerably.

MONEY AND CREDIT

October bank clearings in 24 cities totaled \$48,714,155,000, 17.4 per cent over a year ago and 12.3 per cent above September. Business failures in October dropped to 62 from 64 in September. This was only six more than August's record low of 56 and was 12 less than

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Trends in Business

(Continued)

last October's 74. The October seasonally adjusted insolvency index was 4.0 compared with 5.2 last October and 5.1 in September. Only June and September have had lower rates this year.

SECURITY MARKETS

The number of shares traded on the New York Stock Exchange in October was more than 10 million higher than in September, the highest volume for any October since 1938. Following President Truman's wage policy announcement, the Dow-Jones average of 30 industrial stocks closed at 187.06 on October 22, the highest point since August, 1937. In November prices went still higher. Rail prices gained in October, but they did not make up the losses following June's peak.

PRODUCTION

Both durable and nondurable goods production declined further in October, durable again more sharply. The October level of industrial production was more than half again as high as the 1935-1939 average, although it was about one-third less than the peak volume reached at the end of 1943. As coal output increased at the end of the month, production in some plants, such as steel, also increased.

LABOR AND WAGES

Total employment increased from 51.3 million in the week ending September 8 to 51.9 million in the week ending October 13, according to the Bureau of the Census. Unemployment unexpectedly decreased almost 8 per cent, despite the addition of 490,000 persons to the labor force. Initial unemployment compensation claims declined until the week ending November 3; in that week there was a small increase. Manufacturing employment declined 13 per cent from August to September while payrolls declined 16 per cent. Many plants such as wool yarn and textile mills and ferrous and non-ferrous metal foundries, were reported greatly in need of workers; low wages were considered the main reason.

SOURCES:

ALEXANDER HAMILTON INSTITUTE
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF
NEW YORK
NATIONAL CITY BANK

WHAT MANAGERS ARE SAYING

OFFICE WORKERS' ATTITUDES

The chief sources of dissatisfaction among office workers are promotion policies and pay, according to Dr. Arthur Kolstad, Partner, Houser Associates, who based his statements on attitude surveys conducted by his company. Dr. Kolstad spoke at the Office Management Conference, November 13-14 in New York City.

"Many office employees in industrial concerns feel that they are 'forgotten employees' when pay increases are discussed," he said. "Relatively more of office workers than of the industrial employees claim that the pay for their jobs is lower than that for other jobs of the same difficulty and importance in the company. Though a fair proportion of office workers believe their work offers a good opportunity to establish a satisfactory future for themselves, far too many think it offers only a fair opportunity, or even a poor opportunity."

On some points, however, the surveys indicate that office employees are more satisfied than factory workers: They feel more secure on the job; they like their supervisors better and complain less of having "too many bosses." They complain less of favoritism also, although the majority do state that some favoritism is shown. Also they are more critical of management than factory employees are, perhaps, said Dr. Kolstad, because they are in a better position to observe.

SIGNALS FOR A SURVEY

When is a plant layout or materials handling study needed? R. W. Mallick, Section Engineer, Headquarters Manufacturing Engineering Department, Westinghouse Electric Corporation, listed the following as indications at the Production Conference, October 29-30, in Chicago:

1. When a male operator must lift material regardless of weight or bulk frequently from floor level to a point overhead.
2. When a female operator must frequently lift materials from floor level to chest height.
3. When more than one operator is required to lift or move material.
4. When male operators must lift materials weighing over 75 pounds to a point above the level of the knees.

5. When female operators must lift materials weighing over 35 pounds to a point above the level of the knees.

6. When either male or female operators ordinarily engaged in other tasks must handle materials constantly for periods longer than 30 minutes each day in order to perform their normal operations.

7. When either male or female operators are required to handle similar materials daily over long periods of time.

8. When one or more operators must move materials in large quantities or of large total accumulated weight for a distance greater than 50 feet.

SMALLER EXECUTIVE OFFICES

In recent years there has been a distinct trend toward smaller executive offices, according to Harold C. Pennicke, Management Counsel, and speaker at the Office Management Conference.

Barnlike quarters with impressively large furniture are no longer considered necessary to indicate importance, Mr. Pennicke said. "Rooms measuring approximately 9 x 12 or 14 feet are sufficient for many executive requirements; larger offices measuring 12 x 12 and up to 16 x 16 can make comfortable, even luxurious quarters which will meet almost any senior executive requirement. If the holding of large conferences is necessary, it is usually better to provide a properly equipped conference room, several if necessary, so that important matters can be discussed without the interruptions which usually occur when they are held in the private office."

MATERIALS HANDLING

A girl with proper mechanical equipment can load a freight car with unit loads in less than an hour, a job which takes six men six to eight hours loading loose cargo, Commander Boyd R. Lewis, Bureau of Supplies and Accounts, Navy Department, reported at the Packaging Conference.

The Navy's materials handling program,—which made maximum use of unit loads and mechanized handling—produced greater speed in transporting materials, saved manpower, saved money, and saved in equipment, Commander Lewis pointed out. The principles developed will, he believes, be widely applicable to industry.

RESEARCH DEPARTMENT

The Trend of Salesmen's Traveling Expenses

Salesmen's traveling expenses have now become a subject of even greater importance than before the war, since the U. S. Treasury Department is apparently contemplating stricter control of deductions for employee expenses.

The chief reason for this decision seems to be that the Treasury has found a substantial increase in amounts deducted for traveling expenses, especially for entertaining. In some instances there is a feeling that the sums allowed were too large, in others that they served merely as an increase in compensation on which no taxes were paid. If the Treasury now feels that expense allowances have either not been spent or that they are not "ordinary and necessary," they may be determined as non-allowable deductions, in full or in part, in case of either or both the company and the individual. Hence the importance of knowing and controlling salesmen's traveling expenses in particular cannot be overestimated.

There are other important reasons for watching traveling expenses. Since they are so vague and so difficult to control, they may easily grow beyond what is necessary. During the war this type of expense frequently increased, since "costs did not matter."

Swollen expenses, especially entertainment expenses, will have to come down by the time the present sellers' market disappears and competition resumes its full swing. The reduction may take a long time so that even at this point it seems vital. Also, in order to hold price control, companies and dealers are asked increasingly to absorb rising labor costs by cutting distribution costs. There are thus plenty of reasons why management should be interested in the nature of salesmen's traveling expenses and ways of reducing them.

The importance of this investigation was brought to AMA's attention by a number of enquiries. A questionnaire covering the most important aspects of the subject was sent to 135 member firms which had cooperated in similar surveys. In spite of a second follow-up letter, only 25 questionnaires out of the 135, or less than 20 per cent, proved to be "effective returns."

REPRESENTATIVENESS OF SAMPLE

The size of the sample is obviously too small to justify general conclusions applying to all industry, especially since many types of industries were not included among the companies replying. It is not known to what an extent errors were contained in the data submitted, and it was not possible to check through personal interviews. There are also great differences in the expense outlay needed by salesmen in different industries. Nevertheless, correspondence, the literature, conversations and common sense suggest that the results may be such that other firms may find them interesting.

THE MAIN RESULTS

The movement of salesmen's traveling expenses from 1940 to an estimate for 1946 is indicated in the following table:

SALESMEN'S TRAVELING EXPENSES AS A PERCENTAGE OF TOTAL SALES

1940	1944	1946 (est.)
1.5%	.9%	1.4%

At first sight this seems to indicate that salesmen's traveling expenses were much reduced at the height of the war (by 40 per cent) and that even after the war they are likely to be somewhat below the 1940 level (by 7 per cent). But this may be deceptive. In 1944, sales generally had greatly increased, and hence salesmen's traveling expenses as an *absolute* amount might have increased too (though, of course, less than the percentage increase of sales). They might have remained constant; or they may have fallen, though in the latter case, it is in many instances almost certain that their dollar amount declined less than the percentage reduction shown in the table. Furthermore, it must be remembered that 1944 was the height of the sellers' market with the government as an enormously large customer, so that the amount of sales effort required was much less than before the war. In view of these considerations, it is almost certain that salesmen's traveling expenses "per unit of sales effort required" (i.e., the amount of resistance to be overcome through personal visits, traveling expenses and entertainment) went up during the war.

This observation holds with equal force for 1946. Sales in that year are generally expected to be higher than in

1940. Sales efforts are frequently forecast to be small, since there is likely to be a "sellers' market" for most goods. Hence the fact that the percentage of salesmen's traveling expenses in 1946 is to be almost the same as in 1940 indicates almost certainly an increase in the total amount as well as per "unit of sales effort required." But it must be remembered that the cost of traveling and entertainment has risen considerably since 1940, possibly by as much as 30 per cent.

BREAKDOWN OF TRAVELING EXPENSES

A breakdown of salesmen's traveling expenses showed that transportation and automobile expenses as well as personal grooming expenses are somewhat declining in importance. Room expenses have maintained their relative position. Meals have gone up. The most noticeable change has taken place in the cost of entertainment, which rose from 1940 to 1944 by 35 per cent in relative importance and is expected to stay there in 1946.

CONCLUSIONS

These results are interesting. But their value would be much enhanced by wider response. It would be most helpful if companies reading this article were to send information or comments to AMA's Research Department along the lines indicated. Particularly important are dollar figures or index numbers on total salesmen's traveling expenses and their breakdown into expenses of transportation, automobile allowances, hotel rooms, meals, entertaining, personal grooming and other costs as well as total sales for 1940 and 1944 and an estimate for 1946. These figures might be expressed in dollars or index numbers (1940 = 100). All data will be kept strictly confidential, and a detailed report sent to participating companies.

The importance of knowing and properly controlling salesmen's traveling expenses cannot be stressed sufficiently. Greater sums may have to be spent in conquering new markets and in establishing new products. But considering the somewhat uncontrolled rise of selling costs and the possibility of controlling them more nearly as manufacturing costs are controlled a more effective outlay might be secured. Lower selling costs would be a real contribution toward reducing waste in individual companies as well as in the economy as a whole.

ACTIVITIES of the AMA

Finance Sessions Will Study Effect Of New Tax Laws on Operating Policies

Problems of financial reconversion and the overhauling of business policies in the light of new tax regulations will be discussed at the AMA Finance Division Conference, taking place at the Hotel New Yorker on December 6 and 7.

The sessions, which will bring together finance executives from all types of industry will place stress on the need for cost controls and for the application of cost-reduction principles in business. Speakers, representing both industrial and fiduciary organizations, will address the meeting which has been arranged under the direction of Jules I. Bogen, Vice President of the Association's Finance Division and Editor of *The Journal of Commerce*.

The Conference has been built around the central thought that financial reconversion covers a great deal more than specific capital needs; that it involves overhauling business policies and practices to adjust them to the new, and in many cases unprecedented, conditions of the postwar era. Thus, the discussions will seek to provide a realistic appraisal of various categories of costs with a view to reducing them to a point consistent with the sane level demanded by a highly competitive period ahead.

One of the features of the conference will be a panel discussion in which executives in key management functions will participate. The speakers will include: K. O. Eastlack, President, Borden Farm Products Company; Herbert L. Jamison, Partner, Herbert L. Jamison & Company; E. H. Conarro, Director, Management Service, Metropolitan Life Insurance Company; Alfred Smith, Executive Vice President, C. G. Conn, Ltd.; and, W. E. Jones, Vice President, Scranton Lace Company.

Packaging Exposition Set for Atlantic City

AMA's next Packaging Exposition, of 1946, will be held in the Public Auditorium, Atlantic City, N. J., April 2 to 5, inclusive, 1946. The show will be the largest in the 15-year history of the exposition, with some 150 leading manufacturers participating.



JULES I. BOGEN

The President's Scratch-Pad

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If there is validity to this criticism, and no doubt there is, the critic has put his finger upon one of the sorest spots in management; namely, a skepticism on the part of each department regarding the importance of other departments. An operating division might level such a criticism at the methods or engineering department—and how often is this same lack of appreciation shown toward the personnel department?

On the other hand, without quarreling with our correspondent, is it not true that some personnel, methods, accounting and other departments *do* consider their work to be an end itself? Have not certain of these activities become water-tight compartments completely insulated from contact with the realities of plant operation? Even under the best of top management leadership, there is a tendency for executives to interpret the world and its events in terms of their effect upon his managerial orbit. This is a human failing.

American management has passed through the most hectic period in its history during these war years. It is natural to find much of the fine machinery of management out of repair and badly

Sales Heads to Hear Round-up of Ideas At January Meeting

How to utilize the most effective methods known to modern sales management in taking postwar products to market will be the central theme of discussion at the AMA Marketing Conference which is to be held at the Pennsylvania Hotel, New York City, on January 15, 16 and 17, 1946.

Sessions will be devoted to specific questions, such as: "Have You Planned Your Job?"; "Do You Know Your Market?"; "Have You Studied the Channels of Distribution?"; "What About Your Sales Manpower?"; "Can You Get Your Ideas Across?"; "How Will You Pay Your Salesmen?" Papers at the various sessions will cover different aspects of these problems; some of them will include: forecasting sales volume, organizing for marketing research, a case study in market research, appraisal of distribution channels, enlisting dealer cooperation, operating in the export market, salesmen selection and training, salesmen morale, and how to run a sales conference.

PERSONNEL CONFERENCE, FEB. 13-14-15

The Personnel Division of AMA will sponsor the Mid-Winter Personnel Conference in Chicago on February 13-14-15 at the Palmer House. Planning meetings on the Conference have already been held under the direction of Divisional Vice President, Guy B. Arthur, Vice President, American Thread Company. Members of the Association are invited to suggest topics and speakers for the sessions which will constitute the first nation-wide gathering of industrial relations executives since V-J day.

in need of maintenance. Possibly one of the surest symptoms of such dislocation is a discordant and inharmonious relationship between departments. What management needs most of all to improve its own efficiency is an appreciation of one department for the other—an acknowledgment that all are servants to the same cause; namely, a successful enterprise.

Alvin E. Dodd

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